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Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 LAB-04

SIL-01 L-03 H-02 DODE-00 PA-01 PRS-01 /087 W
---------- 075983
P R 051141Z FEB 76
FM AMEMBASSY BONN
TO SECSTATE WASHDC PRIORITY 6242
INFO AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
USMISSION EC BRUSSELS
USMISSION OECD PARIS
AMCONSUL BREMEN
AMCONSUL DUSSELDORF
AMCONSUL FRANKFURT
AMCONSUL HAMBURG
AMCONSUL MUNICH
AMCONSUL STUTTGART
USMISSION USBERLIN
CINC USAFE RAMSTEIN
CINC USAREUR HEIDELBERG
CINC EUR VAIHINGEN
USNMR SHAPE
USMISSION NATO BRUSSELS

C O N F I D E N T I A L SECTION 01 OF 02 BONN 01968

(C O R R E C T E D C O P Y - NUMEROUS ERRORS IN PARAS.
TWO AND THREE ORIGINAL TRANSMISSION)

DEPARTMENT PASS TREASURY, FRB AND CEA

E.O. 11652: GDS
TAGS: EFIN, GW
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SUBJECT: THE GERMAN UPTURN STUMBLED IN DECEMBER

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1. AFTER A CONFIDENCE INSPIRING STEADY STRING OF FOUR CONSECUTIVE 2 PERCENT MONTHLY INCREASES IN SEASONALLY ADJUSTED INDUSTRIAL PRODUCTION THAT BEGAN FROM THE RECESSION'S BOTTOM LAST SUMMER, THE DECEMBER LEVEL DIPPED BY 1 PERCENT. AN ECONOMICS MINISTRY OFFICIAL WITH WHOM WE SPOKE ON THIS SUBJECT TOLD US THAT HE FELT THAT THE CORRECTION FOR WORKING DAYS INCORPORATED IN THE SEASONAL ADJUSTMENT PROGRAM WAS IMPERFECT AND THAT THE SPACING OF THE HOLIDAYS MAY HAVE CAUSED A DISTORTION IN THE RESULTANT INDEX NUMBER. HE THEREFORE DEEMPHASIZED THE IMPORTANCE OF THE PRODUCTION DOWNTURN THAT THE SERIES INDICATES. RATHER HE POINTED TO THE FACT THAT IN UNADJUSTED TERMS THE DECEMBER 1975 INDUSTRIAL PRODUCTION LEVEL WAS 5.1 PERCENT OVER THE SAME MONTH THE PREVIOUS YEAR.

2. INDUSTRIAL ORDERS ALSO REGISTERED A DECLINE IN DECEMBER AFTER HAVING BEEN ON A STEADY UPWARD TREND SINCE AUGUST. THE INDEX NUMBER OF TOTAL ORDERS WAS 3 PERCENT DOWN IN DECEMBER COMPARED TO THE PREVIOUS MONTH IN VOLUME, SEASONALLY ADJUSTED TERMS. PRINCIPALLY CONTRIBUTING TO THIS DEVELOPMENT WAS A DECIDED SLACKENING IN ORDERS RECEIVED FROM ABROAD, WHICH WERE OFF 13 PERCENT IN DECEMBER AS COMPARED WITH NOVEMBER, WHICH IN TURN WAS DOWN BY 6 PERCENT FROM OCTOBER IN THE REVISED DATA JUST MADE AVAILABLE. THEREFORE, SINCE THE EUPHORIA-GENERATING HIGH POINT IN FOREIGN ORDERS OF SEPTEMBER AND OCTOBER THERE HAS BEEN A MARKED DECLINE SUGGESTING A PEAKING OUT THAT EVERYONE HAS TENDED TO OVERLOOK OR DISCOUNT (SEP TEL TO FOLLOW ON THIS POINT). THIS IS ESPECIALLY DISTURBING SINCE ALL THE VARIOUS FORECASTS FOR GERMAN GNP GROWTH IN 1976 HAVE BEEN VERY HEAVILY PREDICATED ON A STRONG EXPORT PERFORMANCE WHICH THESE DATA DO NOT PORTEND. ONLY PARTIALLY OFFSETTING THE FOREIGN ORDERS DECLINE WERE DOMESTIC ORDERS WHICH ROSE BY 1 PERCENT IN DECEMBER OVER NOVEMBER. IN THE CASE OF THIS PARTICULAR SERIES, THERE HAS BEEN AN UNINTERRUPTED UPWARD SURGE SINCE AUGUST. HOWEVER, THE RATE OF CLIMB HAS DECELERATED SOMEWHAT OF LATE.
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3. THE ECONOMICS MINISTRY OFFICIAL WITH WHOM WE SPOKE REFUSED TO SEE ANY GROUNDS FOR PESSIMISM, AS MIGHT BE SUGGESTED IN THE DATA DESCRIBED ABOVE. A MODERATION OF THE UPSURGE HAD TO BE EXPECTED; HE SAID IT WAS ONLY A NORMAL REACTION. FURTHERMORE, HE OBSERVED THAT ALTHOUGH NOT YET PUBLISHED, THE FOURTH QUARTER 1975 GNP GROWTH OVER THE THIRD QUARTER IN SEASONALLY ADJUSTED TERMS WAS

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ABOUT 3 PERCENT. IF THERE WAS NO FURTHER GROWTH BEYOND THIS LEVEL IN 1976, BUT SIMPLY THE MAINTENANCE OF THE 4TH QUARTER 1975 LEVEL THROUGHOUT THE YEAR, HE ASSERTED THAT THE REAL GNP IN 1976 WOULD BE SOME 2.5 PERCENT ABOVE THAT OF 1975. HOWEVER, AS THE DECEMBER DATA IN THE FIRST TWO COLUMNS OF THE FOLLOWING TABLE REVEAL, FUTURE DOWNWARD MOVEMENTS RATHER THAN GROWTH OR STABILIZATION CANNOT BE EXCLUDED AS A POSSIBILITY. IT IS ONLY ONE MONTH'S DATA, THOUGH, AND TOO MUCH SHOULD NOT BE READ INTO IT ALL OTHER THAN TO SAY THAT IT RAISES A POTENTIAL WARNING FLAG THAT THE GERMAN UPTURN MAY BE TURNING OUT TO BE NOT ALL THAT SMOOTH.

4. THE LATEST REVISED PRODUCTION AND ORDER DATA DISCUSSED ABOVE AND WHICH WILL SHORTLY BE PUBLISHED BY THE BUNDESBANK FOLLOWS:

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INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 LAB-04

SIL-01 L-03 H-02 DODE-00 PA-01 PRS-01 /087 W
---------- 062944
P R 051141Z FEB 76
FM AMEMBASSY BONN
TO SECSTATE WASHDC PRIORITY 6243
INFO AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
USMISSION EC BRUSSELS
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CINC EUR VAIHINGEN
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C O N F I D E N T I A L SECTION 02 OF 02 BONN 01968

SEASONALLY ADJUSTED INDICES OF
INDUSTRIAL PRODUCTION AND
NEW INDUSTRIAL ORDERS - 1975

	IND. PROD.	TOTAL ORDERS 1/	DOMESTIC ORDERS 1/	FOREIGN ORDERS 1/

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JAN.	104	103	97	122
FEB.	104	101	94	125
MAR.	104	99	94	114
APR.	102	101	97	115
MAY	101	97	90	116
JUNE	102	118	120	113
JULY	99	103	98	116
AUG.	101	97	91	122
SEPT.	103	105	95	136
OCT.	105	106	97	137
NOV.	107	107	100	129
DEC.	106	104	101	112

1/ VOLUME BASIS.
CASH

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, ECONOMIC DEVELOPMENT, ECONOMIC REPORTS, ECONOMIC DATA
Control Number: n/a
Copy: SINGLE
Draft Date: 05 FEB 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ShawDG
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976BONN01968
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760044-1033
From: BONN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760280/aaaacslj.tel
Line Count: 211
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: ShawDG
Review Comment: n/a
Review Content Flags:
Review Date: 24 MAR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <24 MAR 2004 by ElyME>; APPROVED <03 AUG 2004 by ShawDG>
Review Markings:

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US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: THE GERMAN UPTURN STUMBLED IN DECEMBER
TAGS: ECON, EFIN, GE
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006